

Message Text

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E.O. 11652: GDS

TAGS: ETRD, MTN

SUBJECT: POSITION PAPER FOR TARIFF GROUP

1. THE FOLLOWING DRAFT LANGUAGE SHOULD BE INSERTED IN THE POSITION PAPER FOR THE TARIFF GROUP MEETING AT THE END OF PAGE 9, PARAGRAPH NO. 25. THIS LANGUAGE HAS NOT BEEN DISCUSSED BY THE INTERAGENCY GROUP, AND THEREFORE SHOULD BE IN BRACKETS.

2. THE U.S. INTEREST IN HARMONIZATION, WHEN TAKEN TOGETHER WITH THE DESIRE FOR A SIGNIFICANT OVERALL CUT, SUGGESTS A FORMULA CONSISTING OF BOTH A LINEAR ELEMENT AND A HARMONIZATION ELEMENT, I.E. A FACTOR RELATING THE DEPTH OF CUT TO THE LEVEL OF THE INITIAL TARIFF. THIS TAKES THE MATHEMATICAL FORM OF $Y = AX^B$, WHERE Y STANDS FOR THE PERCENT REDUCTION, AX STANDS FOR THE RELATIONSHIP

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FOR THE PERCENT REDUCTION, AX STANDS FOR THE RELATIONSHIP

BETWEEN THE REDUCTION AND THE INITIAL TARIFF (I.E., THE HARMONIZATION ELEMENT), AND B STANDS FOR AN ACROSS THE BOARD REDUCTION (I.E., LINEAR ELEMENT). SUCH A TARIFF CUTTING FORMULA WOULD GIVE U.S. NEGOTIATORS CONSIDERABLE FLEXIBILITY SINCE THE TWO ELEMENTS CAN BE COMBINED IN MANY DIFFERENT WAYS TO ACHIEVE U.S. OBJECTIVES. THE QUESTION THEN BECOMES ONE OF DETERMINING THE APPROPRIATE VALUE FOR BOTH THE LINEAR AND THE HARMONIZATION ELEMENT OF THE FORMULA.

3. IN CHOOSING THE VALUES FOR BOTH THE LINEAR TERM (B) AND THE HARMONIZATION TERM (AX), THE OBJECTIVE SHOULD BE TO MAXIMIZE THE FLEXIBILITY OF U.S. NEGOTIATORS IN ACHIEVING U.S. OBJECTIVES. U.S. OBJECTIVES CAN BE ACHIEVED ULTIMATELY BY HIGH VALUES FOR EITHER THE LINEAR ELEMENT (B) OR THE HARMONIZATION ELEMENT (AX), AND VARIOUS INTERMEDIATE COMBINATIONS FOR BOTH VALUES.

4. TWO STRATEGIES COULD BE ADOPTED. THEIR CHOICE DEPENDS IN LARGE PART ON ONE'S ASSESSMENT ABOUT THE POTENTIAL STRATEGIES OF ONE'S TRADING PARTNERS. THE FIRST APPROACH WOULD BE TO BASE THAT ASSESSMENT ON THE HISTORICAL PATTERN--WHERE THE UNITED STATES HAS SUPPORTED A LINEAR APPROACH AND THE ECONOMIC COMMUNITY HAS SUPPORTED A HARMONIZATION APPROACH. FOLLOWING THIS APPROACH, IT WOULD BE LOGICAL FOR THE UNITED STATES INITIALLY TO GO IN WITH A HIGH LINEAR ELEMENT AND A LOW HARMONIZATION

ELEMENT, AND ALLOW ITSELF TO BE PULLED UP ON THE HARMONIZATION ELEMENT AND DOWN ON THE LINEAR ELEMENT IN THE NEGOTIATIONS. SINCE THE U.S. WOULD BE "LEANING AGAINST THE WIND" ON BOTH ELEMENTS, U.S. NEGOTIATING LEVERAGE WOULD BE MAXIMIZED.

5. THE SECOND APPROACH IS BASED ON A COMPARISON OF U.S. AND FOREIGN INTERESTS BASED ON THE DISTRIBUTION OF U.S. AND FOREIGN TARIFFS. A COMPARISON OF SUCH DISTRIBUTION SHOWS THAT THE MAJOR TRADING PARTNERS OF THE U.S. HAVE MORE TARIFFS IN THE 5 TO 15 RANGE, BUT THAT THE U.S. HAS MORE TARIFFS BELOW 5 AND IN THE RANGE ABOVE 20.

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EC PROPOSALS FOR HARMONIZATION HAVE BEEN DESIGNED TO MAKE SHALLOW CUTS IN DUTIES FALLING INTO THE 5-15 RANGE, BUT TO MAKE DEEPER CUTS IN THE HIGHER DUTIES. WHEN A MODEST LINEAR ELEMENT (B) IS ADDED TO THE HARMONIZATION PROPOSALS PUT FORWARD BY THE EC AND JAPAN, THE COMBINATION TENDS TO ACHIEVE SIGNIFICANT CUTS IN THE 5 TO 15 RANGE. IF THE EC WOULD FOLLOW ITS INTERESTS AT THAT POINT, IT WOULD ACCEPT A LINEAR ELEMENT ONLY IN EXCHANGE

FOR A LOWER X ELEMENT, RATHER THAN A HIGHER X ELEMENT, AS WE MIGHT HAVE EXPECTED UNDER THE FIRST APPROACH. IN OTHER WORDS, THE EC AND JAPANESE INTERESTS ARE SERVED BY A LOW LINEAR AND LOW HARMONIZATION ELEMENT, OR SOME COMBINATION THAT ACHIEVES THE SAME RESULT.

6. IN CONTRAST TO THE EC, JAPANESE AND CANADIAN INTERESTS, THE U.S. INTEREST IS TO ACHIEVE SIGNIFICANT CUTS IN DUTIES FALLING INTO THE 5 TO 15 RANGE. THIS OBJECTIVE CAN BE ACHIEVED ULTIMATELY EITHER WITH A HIGH LINEAR

ELEMENT (B) OR A HIGH HARMONIZATION ELEMENT (AX) OR SOME COMBINATION THAT ACHIEVES THE SAME RESULT. UNDER THIS VIEW, THE U.S. SHOULD INITIALLY PUT A COMBINATION FORMULA ON THE TABLE THAT HAS RELATIVELY HIGH VALUES FOR BOTH THE LINEAR ELEMENT (B) AND THE HARMONIZATION ELEMENT (AX), AND ALLOW ITSELF TO BE PULLED DOWN ON EITHER ELEMENT OR BOTH, PROVIDED THAT THE COMBINATION PRESERVED U.S. OBJECTIVES OF A SIGNIFICANT CUT WITH HARMONIZATION IN THE 5 TO 15 RANGE. KISSINGER

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